SB 898

Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 898 (Senator Guzzone)
Budget and Taxation

Maryland Pension Climate Change Risk Act

This bill requires the Board of Trustees of the State Retirement and Pension System (SRPS), consistent with its fiduciary duties, to adopt policies regarding the management of climate risks in the investment of system assets. It also requires the board, consistent with its fiduciary duties, to conduct or commission a climate risk assessment of the system's investments. The risk assessment must be completed by January 31, 2019, and every four years thereafter. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: Special fund expenditures increase by between $100,000 and $300,000 to conduct the required assessment in FY 2019 and every four years thereafter. The State Retirement Agency (SRA) can handle the bill's other requirements with existing budgeted resources. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Policies adopted by the SRPS board related to climate risks must be incorporated into its Investment Policy Manual and address:

- investment principles, guidelines, and policies that govern the selection and retention of the system's investments, including proxy voting and engagement guidelines; and

- a policy that proxy votes and sample due diligence questionnaires for prospective managers be published on SRA's website.

The quadrennial assessment must identify and include specified items and be posted on SRA's website.

To the extent practicable, SRA must request all information necessary from investment managers, brokers, and other entities to carry out its climate change policies. The board or any other fiduciary of the system may not be held liable for any actions or decisions taken in good faith to carry out the bill's requirements.

Nothing in the bill requires the board to take any action unless the board determines, in good faith, that the action is consistent with its fiduciary responsibilities.

Current Law: The SRPS Board of Trustees must hold the assets of the several systems for the exclusive purpose of providing benefits to participants and for reasonable expenses of administration. A fiduciary of the system, which includes the board and other specified entities, must discharge its duties solely in the interest of the participants and:

- for the exclusive purpose of providing benefits to participants and for reasonable expenses of administration;
- with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use;
- by diversifying the investments of the several systems to minimize the risk of large losses;
- in accordance with laws governing the system; and
- in accordance with documents and instruments governing the several systems.

Background: In April 2016, the Joint Committee on Pensions (JCP) asked the board to report on how the system factors the growing risk of climate change into its investment policies. The request noted that the financial cost of climate change will increase and that JCP wanted to hear how the system's practices with respect to the growing risk of climate change affect its investments.

In its October 2016 response to JCP, the board noted multiple steps that the system had taken and tools that it was using with respect to climate change risk. In discussing potential next steps, the board noted that one of its first initiatives should be to obtain an estimate of the system's carbon footprint.

State Fiscal Effect: SRA advises that the assessment required by the bill likely costs between $100,000 and $300,000 for a consultant to complete. If one of the system's existing consultants can complete the assessment, the cost might be less.

Although the agency indicated in its 2016 response to JCP that it was considering conducting such an assessment, it is not included in the agency's proposed fiscal 2019 budget, so it represents an additional cost to the agency for the coming fiscal year.

As the bill specifies that any actions taken by the board must be consistent with its fiduciary responsibilities, it is assumed that any adjustments to its investment portfolio as a result of the bill do not diminish system assets.

Additional Information

Prior Introductions: None.

Cross File: HB 993 (Delegate Korman, *et al.*) - Appropriations.

Information Source(s): State Retirement Agency; Department of Legislative Services

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